

In May, I noted that 3-month LIBOR was down 30 basis points since December 20, 2018. As of July 22, 2019, 3-month LIBOR is down 56 basis points. At the same time, the consensus is that the Fed will lower the Fed Funds rate by 25 bps this coming July 31st. "If" Fed Funds goes down 25 bps and "if" the Lower Wall Street Journal (LWSJ) Prime Rate goes down 25 basis points, the coupon on most SBA pools will adjust down 25 bps in October. If this is the case, SBA Pool investors will have maintained a much higher coupon over the prior 10 months to the cut -- advantage LWSJ Prime Rate!

So far this year the summer doldrums haven't hit the SBA market. While summers typically have represented a buying opportunity, NOT this summer. Prices on newly originated loans have remained firm since May; full coupon (Prime rate + 2.75%) loans are currently trading today at approximately 116.625 with a 25-year maturity and approximately 111.375 with a ten-year maturity.

	Year 1	Year 2	Year 3	Year 4
2019	3.1%			
2018	3.8%	6.0%		
2017	3.3%	7.9%	13.7%	
2016	2.3%	6.5%	15.7%	22.8%

Source: Bloomberg July 2019 PSBA speeds

Vector speeds we use on new pools continue to inch up. The current vectors for new pools are: 10.8% for 8-11-year WAM paper and 12.4% for 21yr+ WAM paper. It is interesting to note that the first three years of pool prepayment speeds have remained stable.

Years 1-3 are by far the most critical time-period for SBA pools that trade at premium prices. The increase in prepayment speeds that we are seeing is clearly with seasoned pools that have embedded principal being returned to investors. As such, our vectors include the elevated speeds of seasoned pools in calculating the vectored speed, even though new pools have no embedded principal.

While the projected July rate reduction is not a foregone conclusion, we continue to encourage clients to consider employing a barbell strategy.

If you invest, or are considering investing, in SBA or USDA loans or SBA pools, please give us a call or email me at 901-261-5951 or jbanes@hanover-securities.com.